

Message Text

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ACTION NEA-12

INFO OCT-01 ADP-00 PA-03 PRS-01 USIA-15 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 450

INFO AMEMBASSY NEW DELHI

AMEMBASSY KABUL

AMCONSUL LAHORE

AMCONSUL KARACHI

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E.O. 11652: N/A

TAGS: EGEN, EAGR, PGOV, EIND, PK

SUBJ: GOP INCREASES PRICES FOR WHEAT, VEGETABLE OIL, RICE
AND FERTILIZER AND RAISES WAGES OF GOVERNMENT
EMPLOYEES AND PRIVATE INDUSTRY.

REF: KARACHI A-70, AUGUST 3, 1973

BEGIN UNCLASSIFIED. SUMMARY. AUGUST 10 AND 11 GOP
ANNOUNCED PROCUREMENT AND ISSUE PRICE INCREASES FOR
WHEAT, PROCUREMENT PRICE INCREASE FOR RICE, RETAIL PRICE
INCREASE FOR VEGETABLE OIL, AND WAGE INCREASES FOR GOP
CIVIL AND MILITARY EMPLOYEES AND FOR PRIVATE INDUSTRY.
NEW WHEAT PRICE IMPROVES PROSPECT FOR GOVERNMENT
PROCUREMENT IN FY74 AND TOGETHER WITH INCREASE IN
VEGETABLE OIL PRICE SHOULD REDUCE SMUGGLING. FERTILIZER
PRICE INCREASE IS TOTALLY ABSORBED BY GOP FERTILIZER
SURCHARGE TAX, RECEIPTS FROM WHICH WILL BE USED TO HELP
FINANCE SALARY AND WAGE INCREASES RATHER THAN RESORT TO
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FURTHER (INFLATIONARY) DEFICIT FINANCING.

WAGE AND PRICE INCREASES WILL
AGGRAVATE EXISTING INFLATIONARY INFLUENCES.
END SUMMARY.

1. ON AUGUST 10, GOP ANNOUNCED FOLLOWING PRICE INCREASES:

	OLD PRICE	NEW PRICE
UREA	100 LBS. EQUALS RS. 42.00	100 LBS. EQUALS
UREA	100 LBS EQUAL RS 42.00	100 LBS EQUAL RS 55.00
1MT	EQUAL RS 840.00	1MT EQUAL RS 1,100

PROCUREMENT

WHEAT	1 MAUND EQUAL RS 17.00	1 MAUND EQUAL RS 21.50
ATTA	1. MAUND EQUAL RS 18.37	1 MAUND EQUAL 23.00
VEGETABLE OIL	1 SEER EQUAL RS 4.75	1 SEER EQUAL RS 6.00

(GHEE)

COURSE RICE-

PROCUREMENT PRICE (PUNJAB)

1 MAUND EQUAL RS 26.00 1 MAUND EQUAL 27.00

BASMATI RICE-

PROCUREMENT PRICE

1 MAUND EQUAL RS 60.00 1 MAUND EQUAL RS 62.00

2. ON AUGUST 10 GOP ANNOUNCED THAT EFFECTIVE AUGUST 1, 1973 WAGES OF ALL GOVERNMENT EMPLOYEES, INCLUDING DEFENSE PERSONNEL, DRAWING UP TO RS. 700 PER MONTH, AS WELL AS OF EMPLOYEES OF PRIVATE INDUSTRIAL AND COMMERCIAL ESTABLISHMENTS WERE INCREASED BY RS. 35 PER MONTH. ON AUGUST 11 GOP ANNOUNCED HIGHER PAY SCALES FOR SENIOR CIVIL AND DEFENSE GOP EMPLOYEES EXCEPT FOR TOP MOST RANKS.

3. GOP ESTIMATED COST OF WAGE INCREASES FOR ITS EMPLOYEES AS RS. 63.5 CRORE FOR REMAINING 10 MONTHS FY74 AND INCREASED PENSION COST AS RS. 2.5 CRORE ANNUALLY. GOP ESTIMATED ADDITIONAL COST OF NEW WHEAT PROCUREMENT PRICE AS RS. 25 CRORE AND SAVINGS ON ACCOUNT OF REDUCED WHEAT SUBSIDY OF RS. 17 CRORE FOR NET INCREASED WHEAT COST OF RS. 8 CRORE. GOP ESTIMATED SAVINGS ON ACCOUNT OF REDUCED LIMITED OFFICIAL USE

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FERTILIZER SUBSIDY AS RS. 31 CRORE AND THAT RECENT INCREASE IN EXPORT DUTIES ON COTTON AND COTTON MANUFACTURERS (SEE REF AIRGRAM) WOULD YIELD RS. 17 CRORE ANNUALLY. ADDING SAVINGS FROM REDUCED WHEAT AND FERTILIZER SUBSIDIES PLUS NEW COTTON DUTIES, GOP ESTIMATED TOTAL NEW REVENUES TO BE RS. 66 CRORE AS CONTRASTED TO NEW EXPENDITURES FROM HIGHER PROCUREMENT PRICES AND INCREASED WAGES AND PENSIONS FOR REMAINDER FY 74 OF RS. 74

CRIRE FOR INCREASED DEFICIT OF ONLY RS. 8 CRORE.
END UNCLASSIFIED.

BEGIN LIMITED OFFICIAL USE. COMMENT.

1. WHEAT. GOP HAS PROCURED APPROXIMATELY 1,250,000
NETRIC TONS FROM CURRENT WHEAT CROP AS COMPARED TO 200,000
TONS PROCURED DURING PREVIOUS YEAR. ANNOUNCEMENT OF
INCREASED PROCUREMENT PRICE PRIOR TO PLANTING OF NEW CROP
ACCOMPANIED BY EXCELLENT PROSPECTS DUE TO INCREASED WATER
AVAILABILITY IMPROVES OUTLOOK FOR GOVERNMENT
WHEAT PROCUREMENT NEXT YEAR.

2. SMUGGLING. PRICE INCREASES FOR WHEAT AND VEGETABLE
OIL SHOULD DECREASE INCENTIVE FOR SMUGGLING OF BOTH COMMODI-
TIES TO INDIA AND AFGHANISTAN. EXTENT OF SMUGGLING IS UN-
KNOWN BUT ACCORDING TO KNOWLEDGEABLE SOURCES IS BELIEVED
TO BE CONSIDERABLE.

3. FERTILIZER. SINCE GOP HAS COMPLETELY SOPPED
UP FERTILIZER PRICE INCREASES BY MANUFACTURER'S SURCHARGE,
AS IT DID FOR PREVIOUS PRICE INCREASE, HNEW PRICE DOES
NOTHING TO SERVE AS INCENTIVE FOR CONSTRUCTION OF NEEDED
INVESTMENTS IN NEW OR EXPANDED FERTILIZER PLANT FACILITIES.

4. ADDITIONAL INFLATIONARY PRESSURES. WAGE INCREASE WAS
JUSTIFIED TO ATTEMPT TO MAINTAIN REAL WAGES. GOP DID NOT
ESTIMATE AVERAGE PERCENTAGE WAGE INCREASE FOR GOVERNMENT
AND PRIVATE EMPLOYEES, BUT IT IS UNDOUBTEDLY LESS THAN (IMF)
FY73 ESTIMATED PRICE INCREASE OF 19 PERCENT. WAGE INCREASE
PLUS INCREASED GOP DEFICIT WILL AGGRAVATE EXISTING INFLA-
TIONARY PRESSURES OF ECONOMY, ALTHOUGH MUCH LESS THAN WOULD
HAVE BEEN CASE HAD MORE EXTENSIVE DEFICIT FINANCING BEEN
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INVOLVED.
SOBER

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